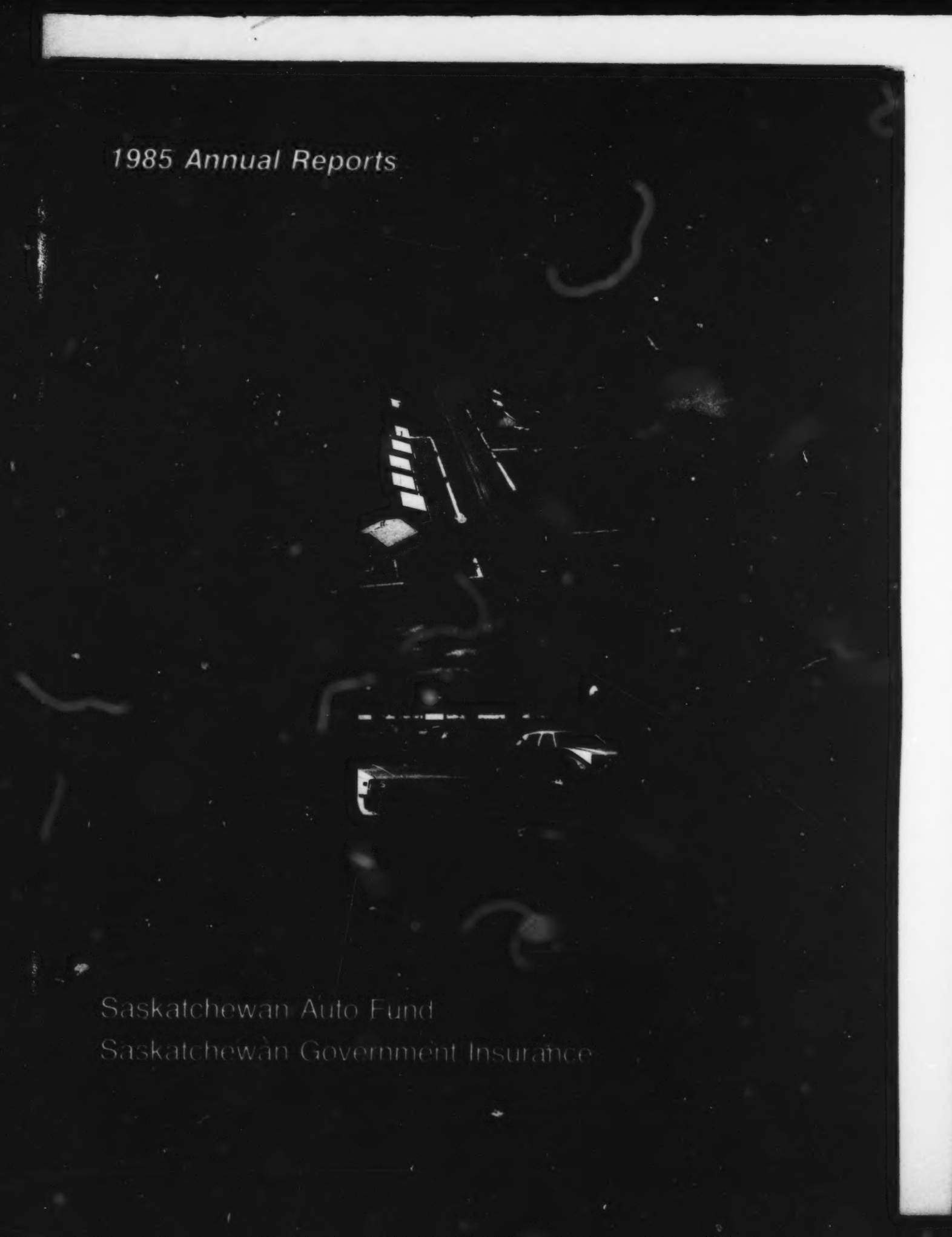
1985 Annual Reports



Saskatchewan Auto Fund

Saskatchewan Government Insurance

Regina, Saskatchewan
March, 1986

To His Honour,
The Honourable F. W. Johnson,
Lieutenant-Governor of the Province of Saskatchewan

Sir:

I have the honour to submit herewith the annual reports of the Saskatchewan Auto Fund and Saskatchewan Government Insurance for the year ended December 31, 1985, including the financial statements therefor, duly certified by the Provincial Auditor and in the form approved by the Treasury Board, all in accordance with the Automobile Accident Insurance Act and the Saskatchewan Government Insurance Act.

I have the honour to be, Sir,

Your obedient Servant,

Rick Folk

Rick Folk
Minister Responsible for
Saskatchewan Auto Fund
Saskatchewan Government Insurance

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President's Message

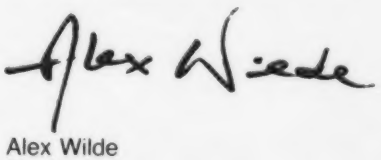
1985 was a successful year for SGI, in spite of major challenges in the form of an industry-wide crisis on liability insurance, and a continued trend of unfavorable assumed reinsurance results.

In a year highlighted by new programs and improvements in product pricing and service, the corporation charted a stable course towards its twin objectives of efficient administration of the Saskatchewan Auto Fund and general business profitability.

A highlight of the year for the Auto Fund — and an outstanding achievement in teamwork within the corporation — was the Good Driver Bonus Program, which called for the prompt and efficient distribution of $20.2 million in bonus cheques to 435,000 Saskatchewan drivers. The Saskatchewan Auto Fund finished the year with a $6.1 million surplus and a rate stabilization reserve of $45.8 million.

Long-tailed claims liabilities in SGI's assumed reinsurance portfolio were responsible for SGI's general business results. However, I am confident that our goal of profitability was advanced: Saskatchewan-based business was again profitable this year, and SGI's position in the marketplace has improved and stabilized. I am particularly encouraged by our achievements in controlling general business expenses, and the progress we made in improving claims service to our customers.

Several changes in senior management late in the year, including the resignation of Donald W. Black as President, resulted in a change of executive responsibilities. Most senior executives took on new roles, and all were strongly committed to keeping the corporate direction firmly on track. They, like the rest of SGI's employees, are talented, hardworking individuals who look forward to carrying out our many plans for leading SGI through 1986 and beyond.



Alex Wilde
President

SGI executive: (standing) Jill Hilsden, Vice-President, Finance; Alan Cockman, Vice-President, Systems; Alex Wilde, President; Grant Gibson, Vice-President, Saskatchewan Auto Fund; (seated) Larry Fogg, Vice-President, Claims; Bob Warren, Vice-President, Underwriting Operations; Margo Fries, Assistant to the President and Secretary to the Board.

Board of Directors and Executive

BOARD

Mr. Allan W. Wagar
Chairman
Regina

Honourable Rick Folk
Minister in Charge
Vice-Chairman

Mr. Arden E. B. Erman
Maple Creek

Mr. Eli Fluter
Regina

Mr. James N. Goring
Biggar

Mr. Ted Henson
Saskatoon

Mr. Ron W. Jeffery
Weyburn

Mr. Donald R. Leier
Saskatoon

Mr. D. A. K. MacLean, Q.C.
Regina

Mr. Ray Malinowski
Yorkton

Mr. A. E. Nicholson
Regina

Mr. George F. Shaw
Esterhazy

Mr. Ron L. Skinner, Sr.
Yorkton

Mr. Ed Sulewski
Paddockwood

EXECUTIVE

Alex G. Wilde
President

Alan C. Cockman
Vice-President, Systems

Larry Fogg
Vice-President, Claims

Grant Gibson
Vice-President
Saskatchewan Auto Fund

L. Jill Hilsden
Vice-President, Finance

Bob Warren
Vice-President
Underwriting Operations

Fiddler Agencies Ltd., Nipawin, is one of many SGI agents offering motor licence issuing service to their clients.

Saskatchewan Auto Fund

Five Year Comparison of Financial Statistics — Saskatchewan Auto Fund

(Millions of $)	**1985**	1984	1983	1982	1981
Premiums Written	**$189.1**	192.8	179.0	170.4	163.7
Premiums Earned (Excl. Fuel Tax)	**$192.6**	187.8	171.3	155.3	126.4
Motive Fuel Tax	**$ —**	—	—	6.6	19.7
Claims Incurred	**$191.1**	149.2	141.8	141.6	123.8
Other Expenses	**$ 29.0**	20.7	18.5	24.0	21.4
Actual Number of Claims (Auto Fund & Extension)	**155,076**	154,697	182,200	200,292	176,665

Report on Operations

Banner Year — 1985

Unprecedented financial strength allowed the Auto Fund to reward Saskatchewan drivers with reduced rates, $20.2 million in bonus cheques, removal of the $15 driver's licence premium, premium discounts on certain farm cars, and improved benefits under the Automobile Accident Insurance Act (A.A.I.A.).

Financial Results

1985 also marked another year of surplus operations for the Saskatchewan Auto Fund, and marked the third successive year of surplus in its rate stabilization reserve. A $6.1 million surplus in 1985, combined with a payout of $20.2 million in good driver bonus cheques, brought the Rate Stabilization Reserve to $45.8 million at year end, a decrease of $13.9 million (from $59.7 million) in 1984.

The Auto Fund achieved these results in spite of a dramatic increase in total claims costs, which were $191.1 million in 1985, 28% higher than the 1984 figure of $149.2 million. The rise in claims incurred was due largely to an increase in average cost per liability claim, which rose 26% in 1985 over 1984. Also, the increase in claims incurred reflects, to some extent, the costs associated with improved benefits enacted in 1985, and a slight increase in the number of claims.

Administrative expenses also grew in 1985. The largest single reason was that the Saskatchewan Auto Fund assumed the costs of operating the drivers' and vehicle licencing system from the Highway Traffic Board in April, which cost the Fund $3.5 million by year end. Service improvements were also responsible for some of the increases.

1985's $6.1 million operating surplus was derived from a smaller premium base. Premiums written were down 2% in 1985, from $192.8 million to $189.1 million. The lower revenues resulted from a schedule approved by the Public Utilities Review Commission (PURC) in February, 1985. This premium schedule lowered vehicle rates an average 7% beginning in May, 1985, and removed the $15 insurance premium associated with the driver's licence.

Investment earnings rose significantly in 1985, primarily because of the higher level of reserves that were available to be invested over the year. The Salvage Division recorded a net profit of $1.4 million on $10.9 million sales in 1985, contributing to a rise in other income for the year.

Marlene Legault of W. W. Smith Insurance Ltd., Swift Current, is part of a province-wide network providing drivers' licences and vehicle registration.

The Auto Fund Mandate

The Saskatchewan Auto Fund exists to provide basic, universal insurance to Saskatchewan drivers and vehicle owners. The Fund is self-sustaining, designed to break even over the long term, with surpluses and deficits recorded in the rate stabilization reserve. The rate stabilization reserve exists to provide a capital base, in order to stabilize the effects of erratic swings in claims from year to year; to ensure that a consistent pattern of reasonable rate adjustments is achieved; and to fund improvements to service and coverage.

Auto Fund Service

Along with the program of basic insurance, the Auto Fund administers vehicle registration and drivers' licencing for the province. Like the general business, the Auto Fund's goal is to serve the public quickly and professionally. In 1985, Auto Fund employees worked hard to do just that, increasing its force of motor licence issuers to serve the 838,000 vehicle owners and 642,000 drivers of Saskatchewan.

Vehicle registration and drivers' licencing services are offered through private issuers, nine branch offices and most SGI agents, serving large and small centres throughout Saskatchewan. Some 469 issuers offer convenient, local service in hundreds of communities, with Saturday service available. Auto Fund staff processed 2.5 million transactions in 1985, and about 235,000 telephone inquiries were handled in head office alone.

Besides offering prompt, convenient registration and licencing, Auto Fund staff works hard to provide efficient and professional claims service. The Claims Division handled 155,076 auto claims in 1985.

Superior claims service is a point of pride for SGI and the Auto Fund. The $10 million capital works project, which will build new claims centres in many Saskatchewan locations, advances the corporation's commitment to improving service whenever possible.

Construction began in 1985 on six of these new facilities, including three drive-in centres in Regina. The remaining projects will begin in 1986. When completed, the centres will allow for faster, more convenient claims handling for the public.

Customers enjoy the convenience of Saturday service from many of the Auto Fund's 469 issuing outlets.

Better Benefits

The A.A.I.A. provides three types of coverage: third-party liability, own-vehicle damage and payments for injury or death. Basic benefits for injury and death, and own-vehicle damage ("collision and comprehensive," subject to a deductible), are paid without regard to the fault of the insured.

Effective January 1, 1985, important changes to the A.A.I.A. were made. New benefit levels

Construction is under way on a new Meadow Lake claims centre, part of a major capital works project upgrading Auto Fund claims service.

increased third party liability to $200,000 from $100,000, and death and supplementary medical allowance payments were substantially improved.

Lower Rates

In January, 1985, the Auto Fund filed a rate schedule with the Public Utilities Review Commission, which lowered vehicle premiums approximately 7%, and eliminated the $15 basic insurance premium on the driver's licence, beginning May 1, 1985. The Auto Fund's farm car rating category, which discounts by 10% private passenger cars owned by qualifying farmers, was also introduced at that time. Nearly 55,000 farm vehicles were underwritten at lower rates.

Good Driver Bonus Program

In May, 1985, some 435,000 Saskatchewan drivers received cheques for $30, $40 or $50 from the Saskatchewan Auto Fund. The $20 million program, created by the Fund to reward drivers with superior claims and driving records, enabled the Fund to distribute surplus revenues that had accumulated in 1984. The mailout was a large project for Auto Fund staff, and the Good Driver Bonus Program was handled smoothly, quickly and efficiently.

Traffic Safety

As always, the Auto Fund worked closely with a variety of safety organizations in 1985, with the central objective of reducing accidents and injuries and promoting safe driving habits. Activity in 1985 included substantial grants to several safety organizations, most notably the Saskatchewan Safety Council, which offers many traffic safety programs to Saskatchewan professional and non-professional drivers.

The corporation's commitment to its Lights on for Life program continued in 1985. The corporation was pleased with the progress of the program: participation and support for the voluntary program is high, and Lights on for Life has sparked considerable interest across Canada.

There is good reason for its popularity. Turning headlights on during the day is an easy and effective way to reduce accidents, injuries and their related costs. The Auto Fund will continue its traffic safety efforts, including Lights on for Life, in 1986.

SGI and Auto Fund staff worked hard to ensure that 435,000 Good Driver Bonus cheques were mailed out quickly and efficiently.

Participation in the voluntary "Lights on for Life" program continues to grow, and is particularly popular with highway drivers.

Responsibility for Financial Statements

The financial statements of the Saskatchewan Auto Fund have been prepared by the management of Saskatchewan Government Insurance as administrator of the Fund in conformity with accounting principles generally accepted in Canada. The financial statements have been examined and approved by the Board of Directors of Saskatchewan Government Insurance. The independent auditor has performed an audit of the Fund which has enabled him to express his opinion on the financial statements of the Saskatchewan Auto Fund. This opinion is shown on page 10.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Saskatchewan Auto Fund. Management maintains an extensive system of internal accounting controls to ensure the transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An Audit Committee composed of members of the Board of Directors of Saskatchewan Government Insurance, administrator of the Fund, meets periodically with financial officers of the corporation and the external auditors. The independent auditor has free access to this Committee, without management present, to discuss the results of his audit work and his opinion on the adequacy of internal financial controls and the quality of financial reporting.

L. Jill Hilsden

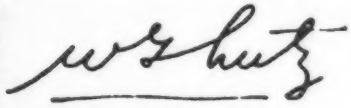
L. Jill Hilsden
Vice-President
Finance
Saskatchewan Government Insurance

Auditor's Report

To the Members of the Legislative Assembly
Province of Saskatchewan:

I have examined the statement of financial position of the Saskatchewan Auto Fund as at December 31, 1985, and the statements of operations and Rate Stabilization Reserve and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Fund as at December 31, 1985, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



W. G. Lutz, F.C.A.,
Provincial Auditor.

Regina, Saskatchewan
February 21, 1986

Statement of Financial Position

December 31	1985	1984
	(Thousands of $)	
Assets		
Cash and Investments Maturing Within One Year	$ 79,503	$ 47,621
Accounts Receivable	8,916	9,552
Prepaid Expenses and Inventories	7,370	6,342
Long-Term Investments (Note 3)	168,130	181,097
Net Investment in Capital Lease (Note 4)	9,125	9,201
Property, Plant & Equipment (Note 5)	15,010	12,173
	$288,054	$265,986
Liabilities		
Accounts Payable & Accrued Charges	$ 13,683	$ 12,600
Unpaid Claims	137,736	99,309
Unearned Premiums	90,808	94,349
	242,227	206,258
Rate Stabilization Reserve	45,827	59,728
	$288,054	$265,986

(See accompanying notes)

Statement of Operations and Rate Stabilization Reserve

Year Ended December 31	1985	1984
	(Thousands of $)	
Premiums Written	$189,136	$192,840
Premiums Earned	$192,575	$187,759
Investment Earnings	31,448	25,268
Other Income (Note 8)	2,064	1,738
Total Revenue	**226,087**	214,765
Claims Incurred	191,050	149,233
Issuer Fees	2,343	1,565
Premium Taxes	7,721	7,538
Administrative Expenses	18,899	11,592
Total Claims and Expenses	**220,013**	169,928
Net Increase to Rate Stabilization Reserve	**6,074**	44,837
Rate Stabilization Reserve:		
Balance Beginning of Year	59,728	14,891
Good Driver Bonus Program Net Cost (Note 7)	(19,975)	—
Balance End of Year	**$ 45,827**	$ 59,728

(See accompanying notes)

Statement of Changes in Financial Position

Year Ended December 31	1985	1984
		(Thousands of $)
Resources Provided		
Operations		
Increase to Rate Stabilization Reserve	$ 6,074	$ 44,837
Adjustments to Convert Earnings to a Cash Basis:		
Loss (Gain) on Sale of Fixed Assets	169	(122)
Increase (Decrease) in Prepaids, Receivables, Payables and Deferred Accounts (Net)	35,577	18,254
Depreciation and Amortization	(339)	95
Resources Provided	41,481	63,064
Proceeds from Disposal of Fixed Assets	99	280
Resources Provided from Operations	41,580	63,344
Resources Transferred from Saskatchewan Government Insurance (Note 2)		
Rate Stabilization Reserve	—	14,891
Prepaids, Receivables, Payables and Deferred Accounts (Net)	—	172,110
Resources Transferred	—	187,001
Total Resources Provided	**$41,580**	$250,345
Resources Applied		
Acquisition and Transfer of Fixed Assets	$ 3,964	$ 13,070
Increase in Short-Term Investments	9,931	48,612
Increase in Long-Term Investments	7,710	188,663
Good Driver Bonus Program Net Cost (Note 7)	19,975	—
Total Resources Applied	**$41,580**	$250,345

(See accompanying notes)

1. Significant Accounting Policies

The Fund's accounting policies are in accordance with generally accepted accounting principles. The following are considered to be significant:

Investments

(a) Bonds, debentures and mortgages have been accounted for on the "deferral and amortization" method. Under this method, realized gains and losses on disposal are deferred and amortized over the period to maturity of the security sold. The unamortized portion of realized gains and losses is included in the amortized value of bonds and debentures.

(b) Shares and convertible bonds have been accounted for on the "fair value" method. This method values shares and convertible bonds on a five-year moving average of market values, thereby allowing for a gradual movement towards current quoted market values.

Premium Acquisition Cost

Premium taxes and issuer fees are charged to expense over the terms of the insurance policies to which such costs relate.

Depreciation

Depreciation on property, plant and equipment is provided on a straight-line basis, commencing in the year in which the assets are placed in service, at rates which are expected to amortize the cost over the service life of each asset.

Unpaid Claims

The provision for unpaid claims includes the estimated cost to the Fund of reported claims, and an estimate based on the claims settlement experience of the Fund of the cost of claims yet to be reported.

Capital Lease

The net investment in the capital lease reflects the present value of future lease payments, discounted at an interest rate implicit in the lease. A portion of the lease payments is applied against the net investment with the remainder recognized as investment earnings.

Unearned Premiums

Premiums not yet taken into income represent the portion of the policy premiums relating to the unexpired term of each policy.

Foreign Currency Translation

Non-monetary assets that are accounted for on the "fair value" method are adjusted to reflect the exchange rate in effect at year end. Non-monetary assets, revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized gains and/or losses arising on translation are charged to operations in that year.

Administrative Expenses

Saskatchewan Government Insurance (SGI) as administrator of the Saskatchewan Auto Fund incurs certain administrative expenses which cannot be readily or economically identified with the operations of SGI or the Saskatchewan Auto Fund. Section 97 of the Automobile Accident Insurance Act provides that the Board of Directors of SGI may make rules for the allocation of these expenses between SGI and the Auto Fund. These administrative expenses are shared equally as approved by the Board of Directors. This treatment is consistent with the allocation used in the prior year.

Identifiable administrative expenses are charged directly to operations.

2. Status of the Fund

The Automobile Accident Insurance Act (Chapter A-35, Revised Statutes of Saskatchewan 1978) was amended effective January 1, 1984 to establish the Saskatchewan Auto Fund. Prior to 1984 the operations of the Automobile Accident Insurance Act were regarded as a separate entity for financial reporting purposes. The operating results, however, were recorded in the accounts of Saskatchewan Government Insurance (SGI). Establishment of the Saskatchewan Auto Fund provided an entity to which the accounts relating to the Automobile Accident Insurance Act could be transferred. SGI continues to be administrator of the Automobile Accident Insurance Act and now the Saskatchewan Auto Fund.

Effective January 1, 1984, all assets and liabilities pertaining to the compulsory automobile insurance program, and the Salvage Division operations and the balance of the Automobile Rate Stabilization Reserve were transferred to the Saskatchewan Auto Fund at their net book value.

The accumulated earnings of the A.A.I.A. and the Saskatchewan Auto Fund are retained in the Rate Stabilization Reserve for the future benefit of Saskatchewan's motoring public and cannot be used for the payment of general dividends.

3. Long-Term Investments

The components of the Fund's long-term investments are as follows:

(Thousands of $)

	Dec. 31/85		Dec. 31/84	
	Book Value	Market Value	Book Value	Market Value
Bonds and debentures	$124,185	$135,619	$142,049	$142,817
Mortgages	15,227	15,865	11,679	11,912
Shares and convertible bonds	28,718	32,235	27,369	28,023
Total long-term investments	$168,130	$183,719	$181,097	$182,752

4. Net Investment in Capital Lease

The Fund, as lessor, has a 63% interest in a lease agreement with a Government department for a term of thirty years (twenty-five years remaining) on property in Prince Albert. The lease transferred substantially all of the benefits and risks incident with the ownership of the property to the lessee.

5. Property, Plant and Equipment

The components of the Fund's investment in property, plant and equipment, as well as the related accumulated depreciation, are as follows:

	(Thousands of $)			
	Cost Dec. 31/85	Acc. Depr. 1985	Net Book Value Dec. 31/85	Net Book Value Dec. 31/84
Land & Improvements	$ 2,553	$ —	$ 2,553	$ 1,726
Buildings	12,448	2,742	9,706	8,581
Automobiles, Furniture and Equipment	4,439	1,688	2,751	1,866
Total	$19,440	$4,430	$15,010	$12,173

6. Public Utilities Review Commission

Premiums charged under the provisions of the Automobile Accident Insurance Act are subject to the review and approval of the Public Utilities Review Commission.

7. Good Driver Bonus Program

Pursuant to clause 81(p) of the Automobile Accident Insurance Act, the Good Driver Bonus Program regulations were established by Order in Council 498/85 dated May 2, 1985. The regulations authorized the Auto Fund to make payments to individual members of the motoring public who qualified under the regulations. Payments to eligible drivers varied in the amounts of $50, $40 and $30. The cost components of the Good Driver Bonus Program are as follows:

Total Payments to the Public	$20,194
Insurance Premium Tax Recovery	(808)
Direct Program Expenses	589
Net Program Costs	$19,975

8. Salvage Division

The Fund operates a Salvage Division in order to maximize the derived economic value of salvageable vehicles, vehicle parts and materials available through the claims settlement process. In 1985, the total salvage sales amounted to $10,860,000 (1984 — $9,267,000); gross earnings on sales $3,871,000 (1984 — $3,106,000); and net earnings of $1,417,000 (1984 — $996,000). The net earnings of the Salvage Division are included in other income.

9. Comparative Financial Information

For comparative purposes, certain 1984 balances have been reclassified to conform with the 1985 financial statement presentation.

10. Related-Party Transactions

Included in these financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies and corporations with which the Fund is related.

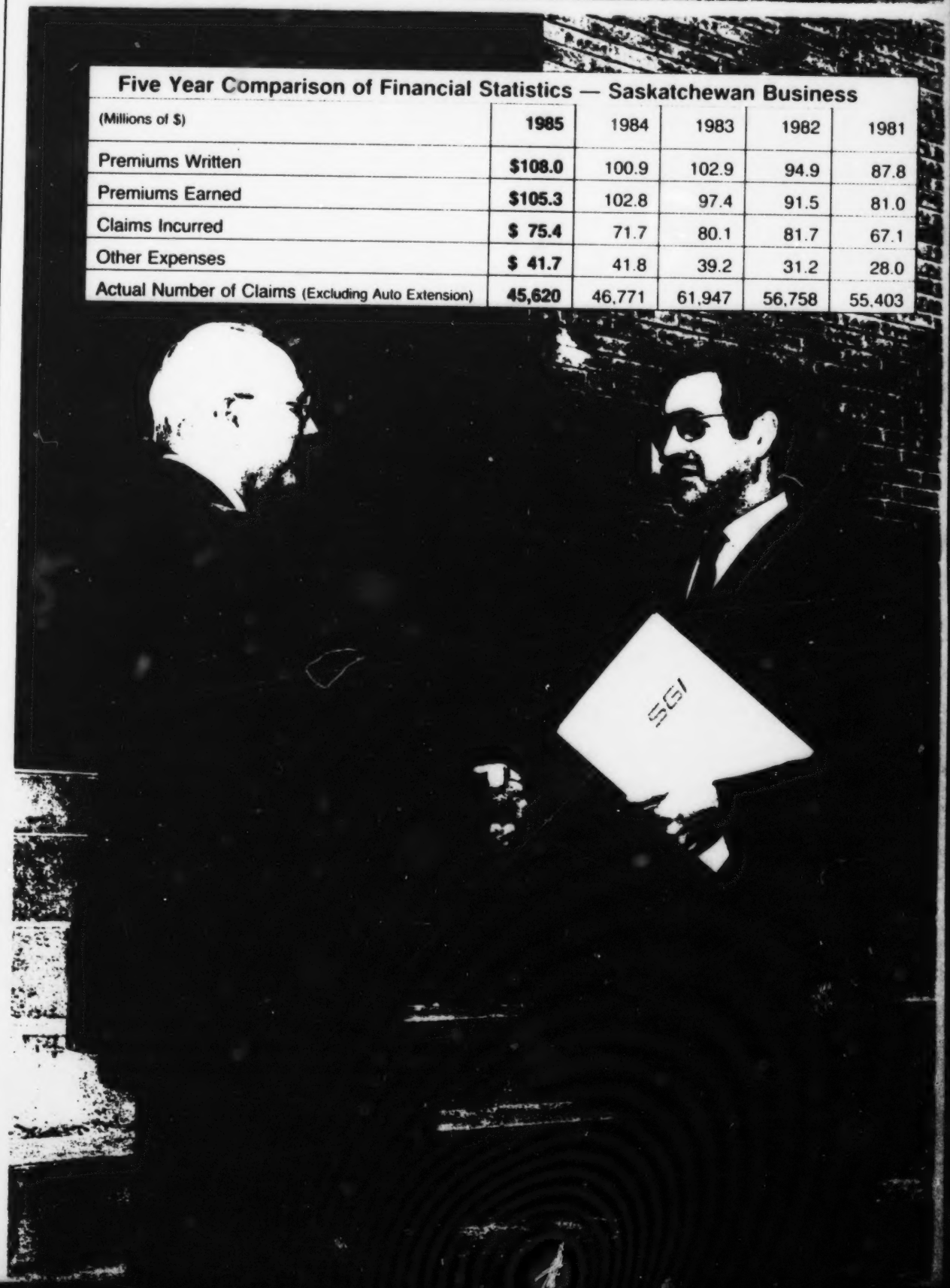
Account balances resulting from these transactions are included in the Statement of Financial Position, and are settled on normal trade terms.

Bob [illegible] (right) of Century 21 Klondike Ltd., Saskatoon, is one [illegible] independent agents representing SGI.

Saskatchewan Government Insurance

Five Year Comparison of Financial Statistics — Saskatchewan Business

(Millions of $)	1985	1984	1983	1982	1981
Premiums Written	$108.0	100.9	102.9	94.9	87.8
Premiums Earned	$105.3	102.8	97.4	91.5	81.0
Claims Incurred	$ 75.4	71.7	80.1	81.7	67.1
Other Expenses	$ 41.7	41.8	39.2	31.2	28.0
Actual Number of Claims (Excluding Auto Extension)	45,620	46,771	61,947	56,758	55,403



40 Years of Service

1985 marked the 40th anniversary since SGI and our agents began linking Saskatchewan communities with a convenient, reliable general insurance network. Today, 450 independent agents, supported by approximately 1,300 SGI and Auto Fund employees in 13 communities, represent stability and service to Saskatchewan people. Approximately half the total insurance market in Saskatchewan entrusts its property/casualty protection to SGI.

Saskatchewan Business

The general business financial picture once again contrasted success in the Saskatchewan market with the reinsurance uncertainties shared by companies worldwide. While an assumed reinsurance loss of $8.8 million produced an overall net loss of $7.7 million in our general business, SGI's Saskatchewan business performed well in 1985. Results before assumed reinsurance produced a profit of $1.05 million, down from $2.1 million in 1984, primarily because of large fire and liability losses in the commercial portfolio.

Sales and Service

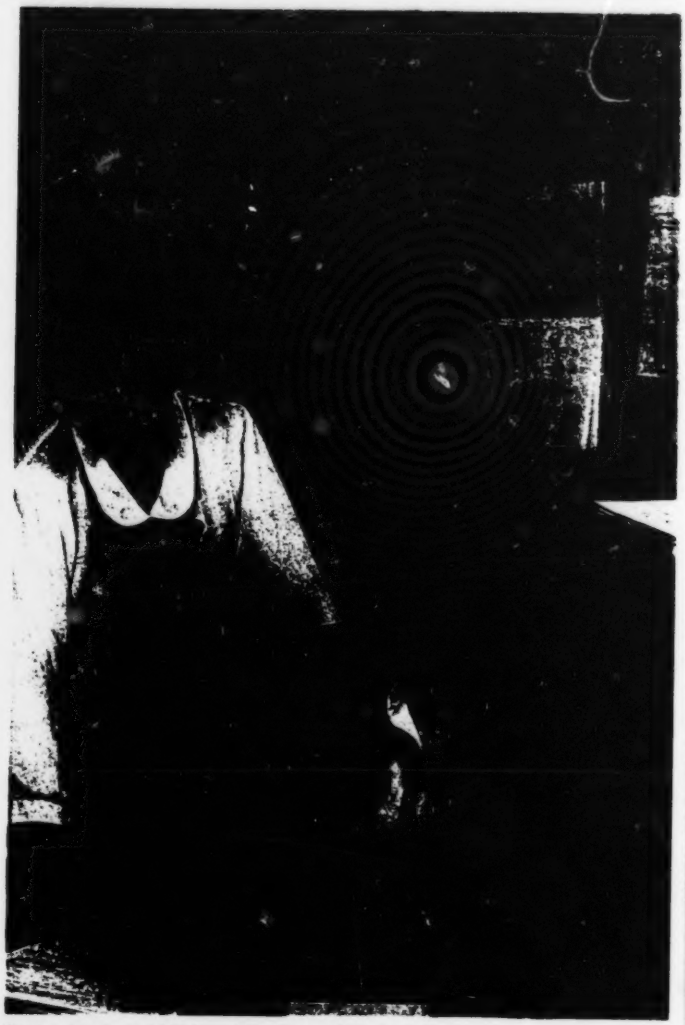
If a single theme dominated operations in 1985, it was service. Improvements in products and pricing enhanced SGI's position as an agent and customer-oriented company. These improvements were supported by internal structural changes, including relocating several field staff to branch offices, and introducing an Agency Relations department to help agents develop their business operations. Continued attention to underwriting standards and customer requirements balanced service with profitability.

Financial Results

Service initiatives were reflected in policy counts, which stabilized in 1985, following several years of stricter underwriting and competitive pressures. Net premiums written in 1985 were nearly $108 million, up from $100.9 million in 1984.

Investment earnings grew slightly, while other income, higher in 1984 due to real estate sales, dropped to $162,000.

A significant improvement was achieved in administrative expenses. The expense ratio not only declined a full percentage point, but total expenses were reduced from $17.4 million to $16.8 million.

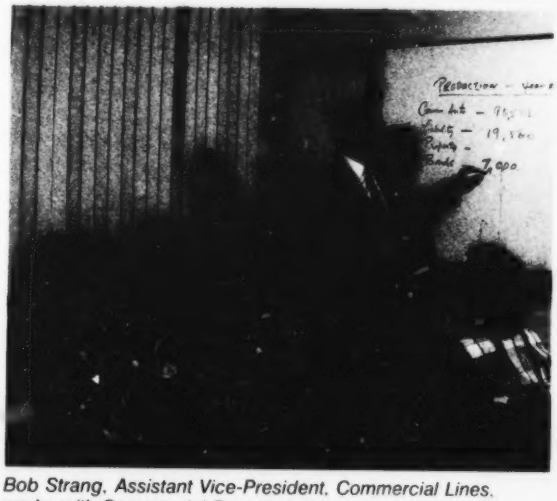


Shirley Beck and Marlene Russell, underwriters in Personal Lines Auto, help ensure that Saskatchewan drivers get Auto Pak's valuable extension coverage.

Line by Line

Premiums rose on all of SGI's major product lines in 1985. Due in part to the introduction of claims-based rating, which rewards home and auto customers for claims-free experience, and to reunderwriting in personal and commercial lines, the number of claims decreased in all lines. This positive result was overshadowed by an increase in average claim cost in all lines but the farm product. Total claims incurred in 1985 were $75.4 million, compared to $71.7 million in 1984. Still, the company's earned loss ratio (premiums earned to claims incurred), at 72%, bettered the projected industry ratio by 11%.

In the drive for profitability across all product lines, SGI did not lose sight of its commitment to offer high-quality protection at competitive prices. While



Bob Strang, Assistant Vice-President, Commercial Lines, works with Commercial Department managers to provide flexible, competitive protection for Saskatchewan businesses.

1985 saw efforts to more accurately assess risks and to reunderwrite accordingly, the year brought considerable good news, particularly for customers with good claims experience.

Auto

SGI rewarded nearly half our Auto Pak and Farm Truck customers (two of the three products forming the Auto line) with a new 10% discount for those free of auto claims for five years. Attractive pricing helped draw customers to an excellent package of extension coverage that includes increased liability protection and a choice of lower deductibles. Together with Commercial Auto, the third policy in the Auto line, Auto policy count grew 2%. While the number of claims was lower than 1984, higher claims costs, particularly liability, lowered profits to $2.2 million from $3.9 million in 1984.

Personal Lines

Home and farm customers also enjoyed the benefits of claims-free experience with new savings for not more than one claim in three years. As a result of the favorable changes to Home Pak and Agro Pak, net premiums written in Personal Lines (including Home, Agro, Tenant, General Dwelling, Mobile Home and Pension Paks) grew slightly to $54.9 million, while the number of claims declined.

Personal Lines continued its drive towards profitability in 1985. The biggest improvement was in Agro Pak, with losses at $2.3 million compared to $4.7 million last year. The product's loss ratio improved 14%, a significant accomplishment.

Although Home Pak claims decreased, average cost of claims increased because of severe fire losses. Such total losses emphasize the need for the Homeowner's Guarantee, an SGI product designed to protect a home for its full replacement value.

Commercial

Market conditions challenged the commercial portfolio once again in 1985. Flexibility was the predominant message to SGI commercial clients as SGI continued its effort to review and reunderwrite policies to increase profitability, yet

Convenient, efficient claims service is a number one goal for SGI in both urban and rural areas across Saskatchewan.

SGI staff participated in "Bowl for Millions" to support Regina Big Brothers, one of many community activities SGI agents and staff contribute to.

Assumed Reinsurance

At the root of SGI's general business losses was assumed reinsurance, the function of insuring the risks of other insurance companies.

Assumed reinsurance continued to plague SGI because of long-tailed liability claims on previously-cancelled treaties. These liabilities are expected to run off over a number of years. The problems in this area parallel those of the assumed reinsurance market worldwide.

provide suitable coverage at competitive rates. Premiums written increased to $18.5 million, and premiums earned rose to nearly $17 million. An appreciable decrease in number of claims was offset by large liability and property losses, producing overall losses of $4.2 million on the line. Bonding, both bid and performance bonds for Saskatchewan contractors, fared well with a profit of $214,000.

High-Risk Liability

The entire insurance industry reeled from the effect of increased court awards and tightening reinsurance markets on "high-risk" liability coverage. Markets for such risks as product liability, professional liability, and municipalities, hospitals and school boards have reflected a difficult reinsurance picture. Reinsurance for these markets has tightened considerably, due to worldwide disasters, legal changes and rising court awards, particularly in the United States.

At SGI, high-risk liability, a small percentage of the commercial portolio, demanded careful scrutiny. While not immune to the industry-wide need to raise rates and restrict coverage on high-risk liability protection, SGI managed to provide reasonably-priced packages for most clients, and maintain the continuity of its reinsurance program through the year.

SGI devoted much effort in 1985 to finding long-term solutions, and we are confident that the vast majority of insurance needs will continue to be met. Clearly, providing adequate liability coverage at affordable rates will be a high priority for SGI in 1986 and beyond.

John Odnokon and Frank Urquhart help keep claims service running smoothly in the Prince Albert area.

Responsibility for Financial Statements

The financial statements have been prepared by the management of the corporation in conformity with accounting principles generally accepted in Canada. The financial statements have been examined and approved by the Board of Directors. The independent auditor has performed an audit of the corporation which has enabled him to express his opinion on the financial statements of the corporation. This opinion is shown on page 22.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An Audit Committee, composed of members of the Board of Directors of SGI, meets periodically with financial officers of the corporation and the external auditors. The independent auditor has free access to this Committee, without management present, to discuss the results of his audit work and his opinion on the adequacy of internal financial controls and the quality of financial reporting.

L. Jill Hilsden

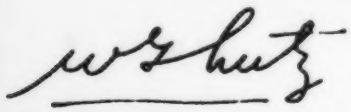
L. Jill Hilsden
Vice-President
Finance

Auditor's Report

To the Members of the Legislative Assembly
Province of Saskatchewan:

I have examined the statement of financial position of Saskatchewan Government Insurance as at December 31, 1985, and the statements of operations and retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the corporation as at December 31, 1985, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



W. G. Lutz, F.C.A.,
Provincial Auditor.

Regina, Saskatchewan
February 21, 1986

Statement of Financial Position

December 31	1985	1984
	(Thousands of $)	
Assets		
Cash and Investments Maturing Within One Year	$ 36,348	$ 26,226
Accounts Receivable	20,596	18,443
Prepaid Expenses	15,099	15,115
Long-Term Investments (Note 5)	73,733	76,954
Net Investment in Capital Lease (Note 6)	5,350	5,394
Property, Plant & Equipment (Note 7)	19,711	19,417
	$170,837	**$161,549**
Liabilities		
Accounts Payable & Accrued Charges	$ 12,184	$ 10,910
Unpaid Claims	79,923	66,766
Unearned Premiums	57,718	55,152
	149,825	132,828
Capitilization		
Advances (Note 4)	57,000	57,000
Retained Earnings (Deficit)	(35,988)	(28,279)
	21,012	28,721
	$170,837	**$161,549**

(See accompanying notes)

Statement of Operations and Retained Earnings

Year Ended December 31	1985	1984
	(Thousands of $)	
Direct Net of Ceded Premiums Written	$107,980	$100,948
Premiums Earned	$105,294	$102,782
Investment Earnings	12,763	12,242
Other Income	162	578
Total Revenue	118,219	115,602
Claims Incurred	75,440	71,662
Commissions	20,394	19,676
Premium Taxes	4,576	4,718
Administrative Expenses	16,760	17,406
Total Claims and Expenses	117,170	113,462
Income (Loss) Before Assumed Operations	1,049	2,140
Income (Loss) From Assumed Operations (Note 8)	(8,758)	(5,737)
Net Earnings (Loss)	(7,709)	(3,597)
Retained Earnings (Deficit): Balance Beginning of Year	(28,279)	(24,682)
Retained Earnings (Deficit): **Balance End of Year**	$(35,988)	$(28,279)

(See accompanying notes)

Statement of Changes in Financial Position

Year Ended December 31	1985	1984 (Note 3)
		(Thousands of $)
Resources Provided		
General Insurance		
Net Earnings (Loss)	$(7,709)	$ (3,597)
Adjustments to Convert Earnings to a Cash Basis:		
Loss (Gain) on Sale of Fixed Assets	27	(556)
Increase (Decrease) in Prepaids, Receivables, Payables and Deferred Accounts (Net)	14,861	8,118
Depreciation and Amortization	480	961
Resources Provided by General Insurance Operations	7,659	4,926
Proceeds from Disposal of Fixed Assets	91	1,421
Resources Provided by General Insurance	7,750	6,347
The Automobile Accident Insurance Act		
Transfer of Rate Stabilization Reserve to Saskatchewan Auto Fund	—	(14,891)
Transfer of Prepaids, Receivables, Payables and Deferred Accounts (Net) to Saskatchewan Auto Fund	—	(172,110)
Resources Transferred to the Saskatchewan Auto Fund	—	(187,001)
Total Resources Provided	**$7,750**	**$(180,654)**
Resources Applied		
Transfers to the Saskatchewan Auto Fund	$ —	$(187,001)
Acquisition of Fixed Assets	1,385	503
Increase (Decrease) in Short-Term Investments	3,017	(1,870)
Increase in Long-Term Investments	3,348	7,714
Total Resources Applied	**$7,750**	**$(180,654)**

(See accompanying notes)

1. Significant Accounting Policies

The corporation's accounting policies are in accordance with generally accepted accounting principles. The following are considered to be significant:

Investments

(a) Bonds, debentures and mortgages have been accounted for on the "deferral and amortization" method. Under this method, realized gains and losses on disposal are deferred and amortized over the period to maturity of the security sold. The unamortized portion of realized gains and losses is included in the amortized value of bonds and debentures.

(b) Shares and convertible bonds have been accounted for on the "fair value" method. This method values shares and convertible bonds on a five-year moving average of market values, thereby allowing for a gradual movement towards current quoted market values.

Premium Acquisition Cost

Premium taxes and commissions are charged to expense over the terms of the insurance policies to which such costs relate.

Depreciation

Depreciation on property, plant and equipment is provided on a straight-line basis, commencing in the year in which the assets are placed in service, at rates which are expected to amortize the cost over the service life of each asset.

Unpaid Claims

The provision for unpaid claims includes the estimated cost to the corporation of reported claims, and an estimate based on the claims settlement experience of the corporation of the cost of claims yet to be reported.

Capital Lease

The net investment in the capital lease reflects the present value of future lease payments, discounted at an interest rate implicit in the lease. A portion of the lease payments is applied against the net investment with the remainder recognized as investment earnings.

Unearned Premiums

Premiums not yet taken into income represent the portion of the policy premiums relating to the unexpired term of each policy.

Foreign Currency Translation

Monetary items and non-monetary assets that are accounted for on the "fair value" method are adjusted to reflect the exchange rate in effect at the year end. Non-monetary items, revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized gains and/or losses arising on translation are charged to operations in that year.

Administrative Expenses

The corporation as administrator of the Saskatchewan Auto Fund incurs certain administrative expenses which cannot be readily or economically identified with the operations of the corporation or the Saskatchewan Auto Fund. Section 97 of the Automobile Accident Insurance Act provides that the Board of Directors of the corporation may make rules for the allocation of these expenses between SGI and the Auto Fund. These administrative expenses are shared equally as approved by the Board of Directors. This treatment is consistent with the allocation used in the prior years.

Identifiable administrative expenses are charged directly to operations.

Superannuation

The corporation has a retirement plan covering its employees. Current service costs of this plan are charged to earnings on the basis of actuarial valuations made every third year. Prior years' service benefits are fully funded, as the Fund is in a surplus position per the actuarial valuation made as of December 31, 1983.

The corporation also has employees who are members of the Crown Investments Corporation Pension Plan 39562 Fund. The corporation matches employee contributions to this plan.

2. Status of the Corporation

Saskatchewan Government Insurance was established as a branch of the Public Service by the Government of Saskatchewan Insurance Act, 1944, reorganized pursuant to the Saskatchewan Government Insurance Act, 1946, and continues under the provisions of the Saskatchewan Government Insurance Act, 1980.

The corporation conducts a general insurance business under the provisions of its Act.

The accounts of the corporation are consolidated in the annual financial statements of the Crown Investments Corporation of Saskatchewan, the financial holding company of the Province of Saskatchewan.

3. Automobile Accident Insurance Act

The corporation acts as administrator of the Saskatchewan Auto Fund under the provisions of the Automobile Accident Insurance Act (Chapter A-35, Revised Statutes of Saskatchewan, 1978). In December 1983, this Act was amended to create the Saskatchewan Auto Fund, effective January 1, 1984. All assets and liabilities pertaining to the compulsory automobile insurance program, the Salvage Division operations and the balance of the automobile Rate Stabilization Reserve, which had previously been recorded in the accounts of SGI, were transferred to the Saskatchewan Auto Fund effective January 1, 1984 at their net book value.

4. Advances

Advances from the Crown Investments Corporation of Saskatchewan (C.I.C.) are non-interest bearing and repayment is at the discretion of C.I.C.

5. Long-Term Investments

The components of the corporation's long-term investments are as follows:

(Thousands of $)

	Dec. 31/85		Dec. 31/84	
	Book Value	Market Value	Book Value	Market Value
			(Note 3)	
Bonds & debentures	$52,213	$55,792	$58,716	$57,333
Mortgages	5,565	5,828	5,103	5,207
Shares & convertible bonds	15,955	17,859	13,135	13,497
Total long-term investments	$73,733	$79,479	$76,954	$76,037

6. Net Investment in Capital Lease

The corporation, as lessor, has a 37 percent interest in a lease agreement with a Government department for a term of thirty years (twenty-five years remaining) on property in Prince Albert. The lease transferred substantially all of the benefits and risks incident with the ownership of the property to the lessee.

7. Property, Plant and Equipment

The components of the corporation's investment in property, plant and equipment, as well as the related accumulated depreciation, are as follows:

(Thousands of $)

	Cost Dec.31/85	Accum. Depr. 1985	Net Book Value Dec. 31/85	Net Book Value Dec. 31/84
Land & Improvements	$ 912	$ —	$ 912	$ 912
Buildings	18,887	3,014	15,873	16,345
Automobiles, Furniture and Equipment	4,764	1,838	2,926	2,160
Total	$24,563	$4,852	$19,711	$19,417

8. Assumed Reinsurance

The corporation underwrites a portfolio of assumed reinsurance, which accepts a portion of the risk of other insurers. In 1985, assumed reinsurance premiums earned amounted to $4,374,000 (1984 — $5,867,000); claims incurred were $11,364,000 (1984 — $9,651,000); and the loss from assumed operations was $8,758,000 (1984 — $5,737,000).

9. Comparative Financial Information

For comparative purposes, certain 1984 balances have been reclassified to conform with the 1985 financial statement presentation.

10. Related Party Transactions

Included in these financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies and corporations with which the corporation is related.

Account balances resulting from these transactions are included in the Statement of Financial Position and are settled on normal trade terms. Other amounts due to (from) related parties and the terms of settlement are described separately in the financial statements and the notes thereto.